

FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

October 26, 2005

In Reply Refer To:  
East Tennessee Natural Gas, LLC  
Docket No. RP05-672-000

East Tennessee Natural Gas, LLC  
P.O. Box 1642  
Houston, TX 77251-1642

Attention: Gregg E. McBride  
Vice President, Rates & Economic Analysis

Reference: Settlement Agreement Filed September 15, 2005

Dear Mr. McBride:

1. On September 15, 2005, East Tennessee Natural Gas, LLC ("East Tennessee") filed a petition for Commission approval of an uncontested Settlement Agreement (S&A) that resolves all issues regarding the lawfulness of East Tennessee's transportation and LNG storage rates during the Settlement Term from November 1, 2005 through October 31, 2010. Appendix C to the S&A contains *pro forma* tariff sheets reflecting the terms of the settlement. This filing was made in accordance with the Commission's guidance on the filing of uncontested settlement agreements in *Dominion Transmission, Inc.*<sup>1</sup> The S&A represents a compromise among all parties and avoids potential litigation. Accordingly, the S&A is approved as fair and reasonable, and in the public interest. East Tennessee is directed to file actual tariff sheets in accordance with Articles II and IV of the S&A, as described below. The Commission's approval of this Settlement does not constitute precedent regarding any principle or issue in this proceeding.

2. Public notice of East Tennessee's S&A was issued on September 21, 2005. Interventions, protests and comments were due by September 27, 2005. Pursuant to Rule 214 (18 C.F.R. § 385.214 (2004)), all timely filed motions to intervene and any motions to intervene out-of-time filed before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt the proceeding or place additional burdens on existing parties. All of the parties filing comments support or do not contest the settlement.

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<sup>1</sup> 111 FERC ¶ 61,285 (2005).

3. The major features of the S&A are as follows:

4. Article I of the S&A provides that from the effective date of November 1, 2005 until October 31, 2010 (Settlement Term), the S&A resolves all issues relating to whether East Tennessee's rates for transportation and liquid natural gas (LNG) storage services are lawful under sections 4 and 5 of the Natural Gas Act (NGA).

5. Article II provides that, within seven business days of the Approval Date of the S&A (as defined in Article VIII below), East Tennessee will file tariff sheets that are substantively identical to the *pro forma* tariff sheets in Appendix C, Section 1, with an effective date of November 1, 2005. Article II.2 states that the *pro forma* tariff sheets in Appendix C, Section 1 contain the following provisions: (a) an adjustment of East Tennessee's transportation recourse rates through a decrease in its system transmission depreciation rates from 3.1% to 2.0%, reducing its book depreciation expense by approximately \$6.8 million on an annual basis and (b) a reduction in East Tennessee's LNG service rate through a decrease of \$1.2 million in the annual cost of service for its LNG facility. Article II.3 provides that upon the effective date of the S&A, the Commission order approving the S&A shall constitute a determination that the settled system transmission depreciation rate is proper and adequate within the meaning of section 9 of the NGA.

6. Article III provides that the customers identified in Appendix E of the S&A agree to extend the terms of their contracts listed therein, effective upon the issuance of a Commission order approving the S&A through October 31, 2010.

7. Article IV provides that, not later than March 31, 2006, East Tennessee will file to implement an east-end pooling point encompassing the Saltville and Early Grove storage facilities, and the East Tennessee LNG storage facility. Additionally, Article IV provides that within seven business days of the Approval Date, East Tennessee will file tariff sheets that are substantively identical to the *pro forma* tariff sheets in Appendix C, section 2, implementing a five-month winter season service on the Nora supply lateral. Specifically, *pro forma* Sheet No. 101 provides for the availability of Rate Schedule FT-A service on this lateral from each November 1 until the following March 31, while requiring shippers to pay FT-A demand charges only during the months of the winter season.

8. Article V provides that East Tennessee will fund a marketing assistance program during the Settlement Term to promote consumer use of natural gas ("2005 MAP"). East Tennessee will contribute \$550,000 per year to the 2005 MAP and the funds will be allocated in accordance with Article V.

9. Article VI states that no later than April 30, 2010, East Tennessee will provide its firm customers and FERC staff with an informational study comparing costs and revenues for the twelve-month period ending January 31, 2010, as more detailed therein.

10. Article VII provides for a rate moratorium during the Settlement Term, such that East Tennessee shall not initiate a NGA section 4 rate case prior to November 1, 2010. Further, no other person shall initiate or support any rate review on East Tennessee, including the filing of a complaint to initiate a rate review proceeding pursuant to NGA section 5, prior to November 1, 2010.

11. Article VIII states that the “Effective Date” of the S&A is November 1, 2005, and defines the Approval Date as the date of a Commission order approving the S&A without modification or condition that is no longer subject to appeal or rehearing. Article VIII also includes procedures for East Tennessee to waive provisions regarding the Approval Date, for voiding the S&A if the Approval Date has not been set by May 1, 2006, and for making billing adjustments in case the Approval Date occurs after November 1, 2005.

12. Article IX sets forth reservations and limitations, and provides that the S&A represents a negotiated agreement and relates only to the specific matters referred to therein.

By direction of the Commission.

Magalie R. Salas,  
Secretary.